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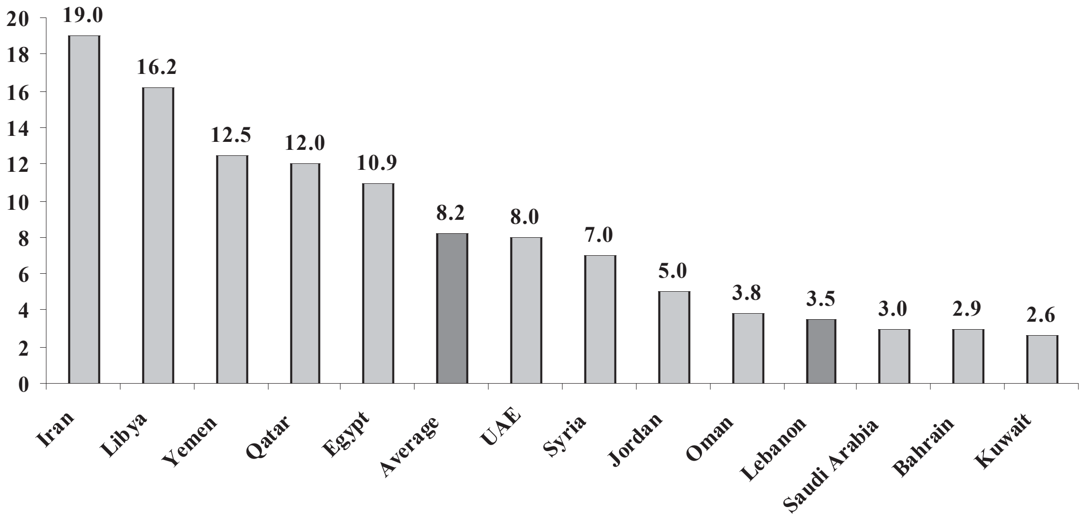
LEBANON THIS WEEK

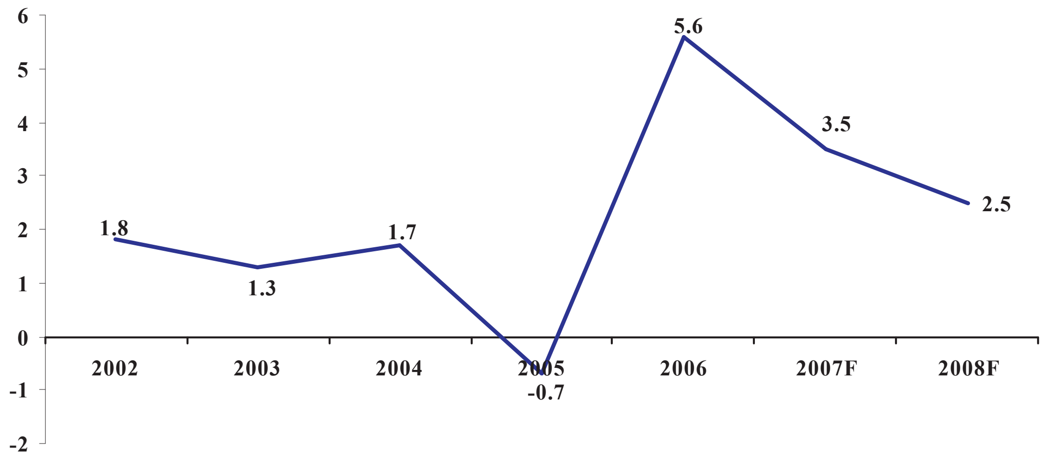
In This Issue

Charts of the Week

Inflation Rates of Middle Eastern Countries in 2007 (year-average %)



Lebanon's Inflation Rate (year-average %)



Source: World Economic Outlook, IMF, October 2007

Quote to Note

"The Lebanese banking sector has survived really severe shocks, much harder than the ones simulated by rating agencies and international institutions."

Central Bank Governor Riad Salameh, on the resilience of the Lebanese banking sector

Number of the Week

39%: Expenditures on Electricité du Liban as a percentage of total Treasury spending during the 1997-2006 period, according to the consolidated fiscal accounts issued by the Finance Ministry.

Economic Indicators

$m *(unless otherwise mentioned)*	**Aug.2006**	**Jan-Aug.06**	**2006**	**Jul.2007**	**Aug.2007**	**Jan-Aug.07**	**% Change***
Exports	86	1,492	2,282	217	-	-	-
Imports	269	5,927	9,399	1,050	-	-	-
Trade Balance	(183)	(4,436)	(7,118)	(833)	-	-	-
Balance of Payments	(235)	1,608	2,795	362	135	289	(82.03%)
Checks Cleared in LBP	419	4,641	7,219	706	731	5,495	18.40%
Checks Cleared in FC	1,348	17,381	25,268	2,457	2,605	18,749	7.87%
Total Checks Cleared	1,767	22,022	32,487	3,163	3,336	24,244	10.09%
Budget Deficit	547	1,527	3,039	48	270	1,543	1.05%
Primary Balance	(305)	319	(17)	164	(20)	542	69.91%
Airport Passengers	36,878	1,876,932	2,825,138	346,921	424,105	2,255,919	20.19%

$bn *(unless otherwise mentioned)*	**Dec.2005**	**Aug.2006**	**Dec.2006**	**Jun2007**	**Jul.2007**	**Aug2007**	**% Change***
BdL FX Reserves	9.85	13.41	10.21	9.92	10.21	10.20	(23.94%)
In months of Imports	*11.3*	*49.9*	*11.3*	*11.1*	*9.7*	-	-
Public Debt	38.50	39.37	40.39	39.76	40.09	40.45	2.74%
Net Public Debt	34.79	36.33	37.44	37.44	37.75	38.10	4.87%
Bank Assets	70.33	72.04	76.18	79.04	79.58	81.46	13.08%
Bank Deposits	56.99	57.55	60.69	63.20	64.21	64.63	12.30%
Bank Loans to Private Sector	16.23	17.01	17.20	18.52	18.68	18.68	9.82%
Money Supply M2	16.23	15.45	15.57	16.30	16.47	16.56	7.18%
Money Supply M3	49.38	50.54	53.23	56.04	56.73	57.40	13.57%
LBP Lending Rate (%)	10.12	9.99	10.37	10.36	10.28	10.21	22b.p.
LBP Deposit Rate (%)	7.70	7.46	7.49	7.49	7.49	7.48	2b.p.
USD Lending Rate (%)	8.38	8.48	8.55	8.32	8.32	8.25	(23b.p.)
USD Deposit Rate (%)	4.09	4.58	4.76	4.89	4.92	4.90	32b.p.
%* Change in CPI**	(2.23)	8.27	7.04	3.20	1.62	1.68	(659b.p.)

** Year-on-Year; ** Consumer Price Index*
Note: b.p. i.e. basis point
Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	18.98	6.63%	394,717	19.34%
Solidere "B"	19.04	6.79%	206,479	12.61%
Byblos Common	2.07	6.15%	111,293	4.32%
Byblos Priority	2.09	6.63%	66,204	4.39%
BLOM GDR	90.70	12.81%	67,836	6.83%
BLOM Listed	77.10	10.94%	700	5.63%
Audi GDR	71.65	1.99%	57,158	7.17%
Audi Listed	68.00	1.49%	17,299	22.70%
HOLCIM	20.74	3.70%	3,091	4.12%

*Source: Beirut Stock Exchange (BSE); *Week-on-week*

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Oct.2009	10.250	102.50	8.81
Dec.2009	7.000	96.50	8.84
Mar.2010	7.125	96.50	8.80
May 2011	7.875	96.75	8.96
Sep.2012	7.750	96.13	8.74
June 2013	8.625	98.00	9.08
Apr.2015	10.000	105.00	9.07
Jan.2016	8.500	95.38	9.31
May 2016	11.625	112.50	9.46
Apr.2021	8.250	91.00	9.45

Source: Byblos Capital Markets

	This Week	Last Week	% Change	September 2007	September 2006	% Change
Total Shares Traded	945,565	1,027,683	(7.99%)	12,821,651	3,739,762	242.85%
Total Value Traded	$23,358,887	$18,017,623	29.64%	$212,726,765	$52,687,949	303.75%
Market Capitalization	$9.82bn	$9.37bn	4.80%	$9.27bn	$7.14bn	29.83%

Source: Beirut Stock Exchange (BSE)

Remittances to Lebanon at $5.72bn in 2006, 13th highest among developing countries and second highest in the MENA region

Figures released by the United Nations show that the inflow of expatriate remittances to Lebanon totaled $5.72bn in 2006, accounting for 1.9% of aggregate remittances flow to developing countries and for 16.1% of such inflows to the Middle East & North Africa region. Lebanon was the 13th largest recipient of remittances among developing countries and the second largest recipient in the MENA region in nominal terms, according to Byblos Research. On a global basis, Lebanon ranked ahead of Nigeria, Kazakhstan and Romania, and came behind Pakistan, Vietnam and Brazil. Remittance inflows to Lebanon were more than twice the $2.21bn average value of remittances to developing economies and the $2.73bn average for the MENA region. In parallel, remittance inflows to Lebanon were equivalent to 25.2% of GDP, 13th highest among developing countries and the highest such ratio in the MENA region. Globally, Lebanon ranked ahead of Honduras, Lesotho and Burundi and behind Liberia, St Vincent & Grenadine and Grenada. Remittances to developing countries totaled $300bn in 2006, with India constituting the biggest recipient with $24.5bn.

Expatriate Remittances to the MENA Region in 2006

	US$bn	Rank	% of GDP	Rank
Morocco	6.40	11	11.2	39
Lebanon	**5.72**	**13**	**25.2**	**13**
Algeria	5.40	14	4.7	72
Iraq	3.72	21	7.3	56
Egypt	3.63	23	3.4	81
Jordan	2.68	31	18.9	22
Iran	2.30	35	1.0	113
Tunisia	1.60	45	5.1	68
West Bank & Gaza	1.41	49	n/a	n/a
Yemen	0.95	63	5.0	69
Syria	0.80	67	2.3	96
Sudan	0.77	71	2.0	100
Libya	0.13	123	0.3	122

Source: United Nations, Byblos Research

EIU projects average growth at 1.8% in 2008-09

In its fourth quarter report for 2007, the Economist Intelligence Unit estimated that the political situation in Lebanon will remain volatile with a strong possibility of renewed outbreaks of violence. It said the political deadlock will not be resolved over the near term, which will make it very difficult for the government to implement its comprehensive economic reform plan. The EIU revised downwards real GDP growth to 1.2% in 2008 and 2.3% in 2009 from earlier projections of 2.7% for 2008 and 2.6% in 2009. It said the postponement of economic reforms could prevent Lebanon from receiving all of the $7.6bn in financial aid and soft loans pledged at the Paris III donor conference. It warned that it will be extremely difficult to address Lebanon's long-term structural deficit and public debt without reforms, adding that public finance imbalances are expected to persist in 2008-09. According to the EIU, the fiscal deficit will remain significant and average 13% of GDP over the covered period, and the large public debt burden will continue to rise despite substantial international aid. But new loans should allow the government to finance the fiscal deficit in 2008-09, assuming that the reform program makes sufficient progress to fulfill the conditions attached to promised international support. It considered that the key factor determining the sustainability of public finances is the willingness and capacity of commercial banks to extend new financing and to roll over foreign debt, as more than $5bn in Eurobonds is due to mature in the coming two years. Also, any sustained political deterioration could raise the risk premium and push interest rates up, while such long-term uncertainty could cause a drawdown on the Central Bank's foreign-exchange reserves.

Country Forecast Summary

	2007e	2008f	2009f
Real GDP growth (%)	0.3	1.2	2.3
Consumer price inflation (av) (%)	5.6	4.0	3.5
Two-year T-bill rate (%)	8.8	8.9	8.9
Fiscal balance (% of GDP)	-15.0	-13.8	-12.6
Current-account balance ($bn)	-3.3	-3.3	-2.9
Current-account balance (% of GDP)	-15.2	-14.4	-11.9
External debt (year-end; $bn)	34.7	36.2	36.9

e EIU estimate

f EIU forecast

Source: Economist Intelligence Unit, July 2007

Number of tourists down 8% year-to-September

The number of incoming tourists to Lebanon totaled to 766,680 in the first 9 months of 2007, down 8% from the same period last year. The number of tourists reached 81,270 in September, up 20% from September 2006, while down 44% from August 2007. Arab tourists accounted for 35% of total visitors. They were followed by visitors from Europe with 26%, Asia with 19% and the Americas with 12%.

Lebanon in the News

Consumer Price Index up 2.2% in third quarter of 2007

The Central Administration for Statistics (CAS) issued its Consumer Price Index for the third quarter of 2007 showing increases of 2.2% in the first 9 months of 2007, and 4.5% in the third quarter of the year. Prices of water, electricity and gas witnessed an increase of 13.4% between December 2006 and September 2007, the highest increase among all categories, followed by prices of furniture, household maintenance and equipment which rose by 5.1%, then prices of transportation and communication which increased by 3%.

Beirut Port activity in first 9 months of 2007

The Port of Beirut stated that port revenues amounted to $84.6m in the first 9 months of 2007, compared to $58.7m in the same period last year. The freight activity and number of ships reached 3.9 million tons and 1,678 ships, up by 32% and 30% respectively in the year-to-September period compared to the same period in 2006. Port revenues reached $8.7m in September 2007, up 39% from September 2006. The freight activity rose by 37% to 453,000 tons, and the number of ships increased by 27% to 161 ships in September 2007, compared to September 2006.

Lebanon ranks 89th globally, 9th in MENA in agricultural value-added

Figures issued by the World Bank indicate that agricultural value-added in Lebanon totaled $1.15bn during the 2003-05 period. Lebanon's agricultural value-added was equivalent to 6% of GDP during the covered period, ranking the country in 89th place globally and in 9th place among 15 countries in the Middle East and North Africa region, according to Byblos Research. Globally, Lebanon ranked ahead of Lithuania, Greece and Chile and came behind Croatia, Ecuador and Brazil. Lebanon's agricultural value-added per worker reached $11,485 during the covered period, ranking the country in first place in the Arab world and in 19th place globally. Agricultural value-added in Lebanon grew by an annual average of 1.9% during the 1990-2005 period. Further, the World Bank estimated Lebanon's rural population at around 500,000 on average for the 2003-05 period, representing 13.5% of the country's total population. Lebanon ranked in 13th place in the MENA region in terms of rural population as a percentage of total population.

In parallel, Lebanon's agricultural imports totaled $1.2bn on average during the 2003-05 period, ranking the country in 8th place in the region after Jordan and ahead of Syria. Lebanon's agricultural exports amounted to $201m on average for the 2003-05 period, ranking 11th in the region, and represented 14% of the country's total exports, coming in 3rd place regionally. Lebanon's cereal production amounted to 38kg per capita on average in 2003-05, ranking 10th in the region. Also, production of meat totaled 50kg per capita and output of fruits and vegetables was 447kg per capita, ranking Lebanon in second place regionally in both categories. Official development assistance (ODA) to agriculture in Lebanon was estimated at an annual average of $5.6m for the 2003-05 period and represented 3% of GDP, ranking Lebanon in 5th place in the MENA region. The World Bank indicated that while 75% of the world's poor live in rural areas in developing countries, a mere 4% of official development assistance goes to agriculture.

	Agriculture value-added % of GDP	MENA Rank	$ per agricultural worker*	Rural population % of total population	ODA % of total ODA
Sudan	36.1	1	371	60.1	0.5
Syria	25.8	2	1,196	49.5	1.9
Egypt	15.6	3	497	57.3	3.9
Morocco	15.6	4	719	42.0	2.5
Yemen	14.3	5	168	73.1	8.7
Tunisia	12.1	6	1,432	35.1	0.7
Iran	11.2	7	1,058	33.6	1.6
Algeria	9.7	8	1,021	37.4	2.6
Lebanon	**6.5**	**9**	**11,485**	**13.5**	**3.0**
Saudi Arabia	4.2	10	5,523	19.2	3.5
Jordan	2.8	11	505	18.1	0.3
Oman	1.9	12	525	28.5	11.0
Kuwait	0.5	13	8,078	1.7	n/a
Israel	n/a	-	n/a	8.4	n/a
West Bank & Gaza	n/a	-	n/a	28.4	n/a

** Agricultural value-added*

Note: Data refer to the average for the period 2003-05

Source: World Development Report 2008, Byblos Research

Lebanon in the News

Update on France's and USA's Paris III pledges

French officials informed Lebanese officials that the French Parliament is expected to approve the €375m (around $500m) soft loan to Lebanon by end-November. The soft loan, which was pledged by France at the Paris III conference, aims to support the government in reducing the cost of debt servicing. American officials also informed Lebanon that the United States will grant Lebanon the balance of the $250m in budget support pledged at the Paris III conference. The US has already sent $75m of budget support to Lebanon.

Finance Ministry signs MoU with LTA

The Ministry of Finance signed a Memorandum of Understanding with the Lebanese Transparency Association (LTA) in order to help increase transparency and disclosure at the ministry. The agreement is part of the overall cooperation between the government and civil society. LTA will assist the ministry in increasing transparency and disclosure, extending citizens' right-to-know and access to information, as well as in providing additional data and information. The agreement also supports the ministry's commitment to accountability and fighting corruption at an institutional level. LTA recently launched the campaign "Transparency and Integrity in Post-war Reconstruction and Compensation", and signed a deal with the International Finance Corporation to establish an Institute of Corporate Governance in Lebanon. LTA is the local chapter of global non-government organization Transparency International.

Corporate Highlights

Byblos Bank invites shareholders to an Extraordinary General Assembly

The Board of Directors of Byblos Bank s.a.l. invited shareholders to an Extraordinary General Assembly to be held on November 9, 2007. The agenda of the meeting includes, among other things, approving the subordinated loan agreement of $200m and underlying bonds convertible into shares and/or GDRs, and approving the gradual capital increase of $200m reserved to the subscription of the holders of bonds underlying the subordinated loan.

RYMCO to list 400,000 additional shares on BSE

The Beirut Stock Exchange (BSE) approved the listing of 400,000 additional shares of Rasamny Younis Motor Co. (RYMCO) starting Wednesday October 24, 2007. Accordingly, a total of 10,400,000 shares, equivalent to 40% of RYMCO's total common shares, are now listed on the bourse. The extraordinary general assembly of RYMCO, which was held on July 16, 2007, decided to increase the company's capital from LP25bn ($16.6m) to LP26bn ($17.2m) through transferring LP1bn ($0.7m) from reserves to current capital and issuing 1 million new shares at a nominal value of LP1,000 ($0.66) each. RYMCO's net income reached $1.4m in the first half of 2007, up 54% from the same period last year. RYMCO had a 20% market share in new cars registered in the first half of 2007, the highest among car dealerships in the country.

Ratio Highlights

	2005	2006	Change*	H1-2007*(1)*
Nominal GDP*(2)* ($bn)	21.5	22.7		24.0
External Debt / GDP	89.3	89.9	60	85.0
Local Debt / GDP	89.8	88.1	(170)	81.7
Total Debt / GDP	179.1	178.4	(70)	165.8
Trade Balance / GDP	(34.9)	(31.3)	360	(17.5)
Exports / Imports	20.1	24.3	420	24.0
Revenues / GDP	22.8	19.4	(340)	12.5
Expenditures / GDP	31.6	30.8	(80)	17.5
Budget Balance / GDP	(8.8)	(11.5)	(270)	(5.0)
Primary Balance / GDP	2.3	0.4	(190)	1.7
BdL FX Reserves / M2	60.7	65.6	490	60.8
M3 / GDP	229.8	234.4	460	233.3
Bank Assets / GDP	327.0	335.7	870	329.2
Bank Deposits / GDP	265.1	267.4	230	267.5
Private Sector Loans / GDP	75.3	75.8	50	77.9
Dollarization of Deposits	73.1	76.2	310	75.9
Dollarization of Loans	82.4	81.6	(80)	81.9

** Change in basis points*
(1) Up to June 2007, and based on the IMF estimation of 2% Real GDP Growth Rate and 3.5% Inflation Rate
(2) Based on Ministry of Finance Estimations (assuming 1% and 0% Real GDP Growth Rates in 2005 and 2006 respectively)
Source: Byblos Research Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Aug.2006	July 2007	Aug.2007	Change*	Risk Level
Political Risk Rating	57.5	56.0	56.0	↓	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	25.5	29.0	29.0	↑	High
Composite Risk Rating	57.3	58.2	58.2	↑	High

Regional Average	Aug.2006	July 2007	Aug.2007	Change*	Risk Level
Political Risk Rating	66.3	67.5	67.6	↑	Moderate
Financial Risk Rating	41.4	42.0	42.0	↑	Very Low
Economic Risk Rating	41.1	40.3	40.2	↓	Very Low
Composite Risk Rating	74.4	74.8	74.9	↑	Low

**year-on-year*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Negative			
Fitch	B-	B	Stable	B-		
S&P	B-	C	Negative	B-	C	Negative
CI	B-	B	Negative	B-	B	Negative

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	D-		Stable
EIU		B	Stable

Source: Rating agencies

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